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IMPLEMENTING VEGETABLE GROWING CONTRACTS

KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT



April 14, 2006

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IMPLEMENTING VEGETABLE GROWING CONTRACTS

THE REPORT DESCRIBES THE ASSISTANCE GIVEN TO FARMER GROUPS TO DEVELOP AND IMPLEMENT FORWARD PURCHASE CONTRACTS WITH PROCESSORS AND TO FORMALIZE THEIR GROWING ARRANGEMENTS USING SUCH CONTRACTS AS COLLATERAL IN OBTAINING LOANS FROM LENDING INSTITUTIONS

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PURPOSE OF ASSIGNMENT

The purpose of this assignment is to assist producer groups to develop and implement growing agreements with processors, retailers and wholesalers. Farmer groups currently engage in ad hoc forward purchase contracts with processors, retailers and wholesalers. This assignment is meant to bring together these groups and assist in formalizing their growing arrangements. Banks may serve as intermediaries in these transactions, KCBS may also serve as intermediary given USAID consent.

Several food-processing companies have expressed an interest in developing growing contracts to be used with producers in an effort to access the quantities of product necessary for efficient operation of their processing lines. The consultant will work closely to determine the needs of the processor and exactly the varieties of vegetables that should be grown to meet those needs. The consultant will also work to help processors and producers understand the terms of growing contracts.

In order that the consultant be able to tailor specific contracts based on fruit or vegetable varieties to be produced and individual processors to be supplied it is necessary that this assignment be conducted in 2 separate trips.

Specific Associations that will be engaged will be:

- Fruit Associations
- Vegetable Growing Associations
- Wild Fruit Collecting Associations

BACKGROUND

Most fruit and vegetables produced are sold directly to consumers. With respect to processing and marketing, few processors are active and processing capabilities generally far exceed supplies of fresh produce. Growers groups and associations in Kosovo are poorly integrated with processors and retailer/wholesalers. There is a lack of trust between the different groups and the informal growing agreements that currently dominate Kosovo do little to create transparency or facilitate sustainable relationships. The creation and implementation of formal contract farming arrangements is an important step towards reestablishing trust and creating positive conditions for increased access to credit for both producers, processors and retail/wholesalers.

Current Production Possibilities Include:

- Potatoes
- Tomatoes
- Peppers
- Blueberries
- Juniper Berries

In this context a framework for possible formal arrangements for contract growing has been started but not completed. Farmers generally make informal deals with multiple parties and have little control over the final price that they receive for their product. Processors who do make formal arrangements often receive product that is of inferior quality.

EXECUTIVE SUMMARY

The challenge facing the processing industry in Kosovo and in some of the surrounding countries is the lack of established systems for contract growing and most importantly trust between the growers / grower associations and the processing companies. Recent history shows that the growers have a propensity to not honor contracts if the market price is more than the contracted price and that the processors have not been willing to provide a set price for goods delivered. Contract growing was an established system in the region fifteen years ago but was centrally controlled by the government as most, if not all, of the processing companies were state owned and the growers were part of government run cooperatives.

The most difficult constraint is convincing growers that contract growing is the best risk management tool available to them to protect themselves against price fluctuations in the fresh market. Prices for processed product are never higher than for fresh and growers can expect the prices to be higher, yet in Kosovo they do. This is the heart of the problem with the industry in Kosovo. Growers must understand that the processing market is an outlet for their "Class II" product that they would not receive optimum prices for in the fresh market. At the core of this issue is the total lack of quality standards in the fresh or processing markets in Kosovo. Growers must separate their product into classifications for the fresh market and the processing market which they currently do not do.

A basic formula used by many growers around the world is that 60% of their product will be destined for the fresh market while 40% of their product will be sold, at a set price lower than the fresh market, to processing. Especially for small growers as we find in Kosovo one bad season in the fresh market can bankrupt them. Entering into contract growing relations is the best way to ensure they will be able to earn at least enough money to make it through a bad year and be able to have the resources for the next season.

Due to the lack of experience in contract growing and the lack of established systems it is not realistic to expect the farming industry of Kosovo to change overnight. The processing industry in Kosovo is still in its infancy in comparison to established processors in European countries. The farming industry is just now being reestablished with up to date technologies and systems. The achievement of this assignment was to establish new contracting systems through introducing up to date contracts that include volume expectations and set quality standards. Both the processors and growers were encouraged to also set prices. Unfortunately achieving set prices was not possible. But, by working with contracts with growers Raifhiesien bank has informed the growers that they will have access to production loans based on a signed contract with one of the three processing companies, Pestova, Progress and Alcred, working with KCBS. These production loans will enable the growers to expand their current production and will be the corner stone of the expansion of contract growing relationships in the future. Growers will be able to maintain the volumes they are currently growing for the fresh market while expanding production for processing based on the contracts for processing.

The main constraint faced was convincing processors and growers to accept a set price for the product. With the two Kosovo processing companies, Pestova and Progress, and their growers neither party wanted set prices. Both parties understood the need for better contractual agreements for volumes of product but both parties still wanted to use and "open" pricing system. This is a short sighted view of the contract growing system but if it is the desire of both parties entering into the contract then they can not be forced into another system. Detailed analysis of the benefits of growing processing specific varieties and the economic returns were given to all of the growers worked with. This still was not enough to convince them.

The one processing company demanding “set” prices is Alcred, based in Albainia. Alcred is a well established processing company shipping to the EU market. In comparison to the Kosovo based processing companies Alcred is significantly more advanced in their understanding of the market and the need to set prices to ensure profitability for their product. Perdrini growers association is in negotiations to provide product for Alcred. The issue of course is the price. Once a successful season is completed between Alcred and Perdrini this relationship can be used as a model to further convince the processing companies in Kosovo and growers to enter into such a contract.

The purpose of this assignment was to “assist producer groups to develop and implement growing agreements with processors, retailers and wholesalers” and to “bring together these groups and assist in formalizing their growing arrangements.”

Contract growing relations have been significantly enhanced due to the work of the KCBS project. Growers understand the benefits of contract growing now, especially in relation to access to production loans, and the processors are obtaining agreements for volumes that will ensure they have enough product for their production process. The primary constraint is still establishing set prices. This issue will be resolved through the continued support of KCBS in coordinating with the processing companies, banks and growers. Farmers are traditionally slow to accept change. The fact that they now understand the benefits of contract growing and are entering into updated, signed contracts with volume and quality specifications is a significant advancement from the the past season and has established the basis of continued improvements in contract growing for the future.

FIELD ACTIVITIES TO ACHIEVE PURPOSES

PROCESSORS WORKED WITH DURING ASSIGNMENT

Before describing the Field Activities, it is necessary to describe the three processing companies which have already agreed to work with the KCBS project growers and grower associations this year:

- Pestova, a potato processor located in Kosovo;
- Progress, a vegetable processor located in Kosovo; and
- Alcred, a pepper processor located in Albania.

Two other processors are in discussions with the KCBS project to establish if they will work with KCBS growers and/or grower associations this year:

- Enzy, a pepper processor located in Albania; and
- Patatina, a potato processor located in Albania.

PESTOVA

Pestova processing company grows 100 Ha of their own production and is looking for contract production of an additional 3,000 tons of potatoes. Their needs for processing exceed their own production capacity and thus they obtain supplies from growers in their area. Pestova has financed their own production in the past without the need of credit facilities. Pestova has been an innovator in the Kosovo contract growing industry through the use of a very basic contract with their suppliers and by arranging production loans with Raifhesein bank for growers who have signed contracts with Pestova. Pestova also provides updates seeds to their growers to ensure that the optimum varieties are being grown and they supply some limited technical assistance to the growers during the production season.

Pestova worked closely with KCBS in updating their contract with their growers. Annex I is an example of the contract that Pestova previously used with their growers. Annex II is the updated contract, used by Pestova, Progress and Alcred processing companies. Each company has made slight alterations to the contract based on the relationship they have with their growers clients. But, the core issues of the contract have remained with the updated contract ensuring better control for the processing companies and a more updated system for the growers.

Some issues still remain with Pestova and the way they are dealing with the growers. They need to set a dry matter level and have a premium paid for dry matter over the set level. The international quality standards for processed potatoes were provided to Pestova.

PROGRESS

Progress processing company, working in:

- Peppers - 3,000 MT
- Tomatoes - 3,000 MT
- Cucumbers - 100 MT
- Cabbage - 30 MT

They will work with tomatoes for processing and cucumbers for pickling. Progress is a state owned enterprise that is the largest established processing company in Kosovo. The main constraint for the future of Progress is their SOE status. The old managers are currently

running the business but are unsure of the future. Due to this unsure status they have been very reluctant to make any new investments in the company as they don't know if they will own it in the future. This is also a major constraint to how they work with the growers on contract growing arrangements.

The varieties of tomatoes that are grown by the growers supplying Progress are a traditional fresh variety. Growers need to be convinced to grow specific processing tomato varieties. Standard table varieties obtain maximum of 3.5% dry matter. Processing varieties can show 4.5 – 5.0 % dry material. Table varieties achieve 50 – 60 MT per Ha volume while processing varieties obtain 100 – 110 MT / Ha volume. Using 60 MT table and 100 MT processing there is a 40% increase in volume with the possibility of achieving a premium price from the processors. Annex V shows details of variety trials that were conducted by KCBS for tomatoes. The Alparac variety is a dual purpose variety that can be used for processing or sold in the fresh market. The advantage of this variety is that it gives a higher dry matter content which benefits the processing companies while achieving a significant increase in yield with no significant increase in the cost of production per hectare. This variety, if the growers use it, will show the growers the benefits of working with a processing variety but will also allow them to sell into the fresh market. The goal is to convince the growers to expand their production, and grow part of their area with fresh specific varieties and part with processing specific varieties.

Processors need to be convinced to pay a premium on processing variety tomatoes. At 3.5% dry material for table varieties and 4.5% - 5.0% dry material for processing varieties the additional volume of processed product is between 22% and 30%. Based on last years prices of 0.05 eurocent per kilo, a 0.01 eurocent premium can be paid by the processors, which is a 20% increase for the growers but is actually a savings of between 2% and 10% for the processors. The added quality will add value while the more efficient processing will save in costs. This is a win – win for everyone involved.

Processors can also help the growers by providing the seeds for the optimum processing varieties as an advance on returns. This is a sign of good faith from the processors and will set the relationship with the growers.

ALCRED

Alcred is looking for 3,000 MT of peppers for August / September delivery. Quality is based on wall thickness and amount of crush. 5% crush is allowable, more is either deducted from the volume or the product is sent back to the grower. Alcred is a well-established processing company shipping to the EU market. In comparison to the Kosovo based processing companies, Alcred is significantly more advanced in their understanding of the market and the need to set prices to ensure profitability for their product. Perdrini growers association is in negotiations to provide product for Alcred. The issue of course is the price. Once a successful season is completed between Alcred and Perdrini this relationship can be used as a model to further convince the processing companies in Kosovo and growers to enter into such a contract.

Perdrini growers association will supply the product. The associations need to act, on the behalf of the growers, to finalize contract negotiations, terms of the contract and act as a centralized staging area for shipping. Large processors will not deal with multiple growers; this is the responsibility of the growers association, to make the small growers more attractive to the big processors by handling the logistics. It is expected that assistance will be given to Perdrini by the KCBS project to ensure that logistics and production issues are handled as well as possible to ensure the success of this relationship. Annex IV is an example of the contract that will be used between Alcred and Perdrini association.

For all of the processing companies inspection of the product is typically done upon delivery to ensure any damage during transportation has been taken into consideration. Growers

must also conduct inspections at shipping point to ensure the quality stated in the contract is what is being shipped. Rejections are the responsibility of the grower who then pays for the shipping to and from the processing facility. Product that has been rejected will be in bad condition by the time it returns to the growers and will have lost significant value as well as incurring the costs of transportation. It is in the grower's best interest to ship the quality contracted for. Annex VI shows a basic quality control form that can be used by the growers and / or the associations the growers are working through to ensure that the quality specified in the contract is in fact being shipped.

Growers must also remember that they are all working together. If one grower tries to cheat the system all of the growers in that rejected load will be punished. Self-policing will need to be stressed amongst the producers. Processors need to establish the specific varieties they need, quality specifications and packaging specifications. The growers and processors need to work together to minimize any extra cost when possible. This would include returning packaging material to the growers to be re-used

In regards to payment systems growers typically want cash on delivery while processors want to pay by bank transfer. A middle point possibly could be for the first 25% of the volume the growers are paid in cash and from then on paid by bank transfer. The association, if one is involved, should be responsible for ensuring the processors have paid, collect the money and then remit back to the growers based on volumes delivered to the association. The arrangement made with Alcred is that the money for each shipment will be wire transferred to the association's or growers' account the day after the product is delivered and meets good delivery standards. Progress works on a cash system; and Pestova transfers the money to the growers account.

Following is a list of some of the prices paid last year for the listed products:

| | |
|-----------|--|
| Tomatoes | 0.05 Eurocent per kilo (as high as 0.10 eurocent per kilo at the end of the season due to low supplies) |
| Peppers | 0.15 Eurocent per kilo (hit 0.23 eurocent / kilo at end of season) |
| Potatoes | 0.11 Eurocent per kilo (hit 0.13 eurocent / kilo at end of season) |
| Cucumbers | Class I, 3-5 cm, 0.30 Eurocent per kilo Class II, 5-7 cm, 0.20 Eurocent per kilo Class III, 7-9 cm, 0.10 Eurocent per kilo |

The transportation of the product to the processing company is typically paid by the processors in the case of long transportation distances such as with Alcred. The processors pay for the transportation cost but deduct this money from the growers either directly or it is reflected in the price paid per kilo. This needs to be made clear during the contract negotiation. In the case of Pestova or Progress the production areas are close to the processing facilities and the growers are responsible for transportation.

APPROACH TO ESTABLISHING CONTRACTS

Based on the expected results, four basic steps were determined for establishing contract growing arrangements:

1. Meet with growers, producer groups and grower associations to obtain data on:
 - a. Planned crop production
 - b. Varieties for each crop to be planted
 - c. Hectares of each crop by variety
 - d. Expected yields per crop and variety
 - e. Planting schedule
 - f. Expected harvest timing

- g. Need for credit
- 2. Meet with banks and credit institutions
 - a. Establish availability of farm credit
 - b. Obtain specific details on credit application process
- 3. Meet with processors in Kosovo and surrounding countries to establish
 - a. Crops needed
 - b. Optimum varieties and substitute varieties that can be used in each crop
 - c. Overall volumes
 - d. Timing and volume of deliveries
 - e. Quality standards
 - f. Contracting system
- 4. Bring growers / grower associations, bankers / credit institutions and processors together:
 - a. Establish working system between all three parties
 - b. Finalize contract negotiations
 - c. Sign contracts

RECORD OF DAILY ACTIVITIES

Following is a list of my daily activities during the course of this assignment with details of the activities.

February 8, 2006

Meetings with Matt Tokar and Reshat Ajvazaj to discuss the strategy for convincing the growers to use updated, processing specific, varieties for supplying processing companies. A table needed to be developed that would show very clearly the economic advantages of growing the new varieties.

Meeting at Anadrini Association facility in Rahovec

Attendees:

- 12 Growers from the Anadrini association, mostly tomato and pepper growers
- Anadrini association staff:
 - o Mr. Feim Rexhepi – Anadrini Production Manager
 - o Mr. Isuf Lusni - Member of the Anadrini Board of Directors
- Five Owner of the Progress Processing Company Including:
 - o Mr. Irfan Fusha - Progress Owner
 - o Mr. Haxhi - Progress Owner
- Three representative of the BMF Bank / Micro Finance Company
 - o Belkize Cakolli - MIS, Donor, Investment Manager
 - o Veton Zejnullahu - Loan Officer
 - o Fadil Imeri - Loan Officer
- Two KCBS representatives
 - o Reshat Ajvazaj - Fruit and Vegetable Specialist
 - o Peter L. Wetzel - Production Contract Specialist

This meeting was organized by KCBS to bring all four parties who are to participate in contract growing in the Rahovec area. The goal of the meeting was to ensure that all areas involved, the association, growers, lending institution and processor, first agree to work with the production contract concept and secondly, that all parties understand their own role and the role of the other parties, and thirdly that all parties involved understand that this is an interdependent concept; they will all either succeed together or they will fail together.

BMF Micro Finance Lending Institution:

BMF gave a short presentation and discussion on their lending practices and system. BMF is involved with micro finance and is supported by donor agencies in working with growers to supply short term loans for farm inputs. Interest rates for these loans are 12% per year or 1% per month. If a grower pays their loan back in four months they will only pay 4% interest. Currently BMF will not accept a contract with a processing company as collateral against a loan according to the representatives of BMF at the meeting. Meetings are scheduled with BMF to discuss the idea of using signed contracts, for a set price, with a processing company as collateral against a short term loan for inputs. BMF will accept as collateral farm machinery valued at one and a half times the value of the loan. Thus for a 2,000 Euro loan a farmer must put as collateral farm equipment valued at 3,000 Euro. It is the goal of KCBS to finalize a deal with BMF to accept a production contract with a processor as collateral in the future to make the loan easier for the farmers to accept.

Growers

The growers are very interested in getting involved with contract growing. Contract growing was widely used in Kosovo 15 years ago and some of the growers have had recent experience with it while living in Albania or Macedonia. The growers have voiced their interest in the contract growing system without any one presenting any hard data to the benefits of the system. I presented to the growers some of the benefits of contract growing, specifically that contract growing can reduce their risk of price fluctuation during the season. I recommended to the growers that they take 60% of their total production and earmark this for contract production sales with the remaining 40% to be sold on the fresh market.

The KCBS project conducted field trials of new tomato and potato varieties that can be used as dual purpose varieties. This becomes very important with tomatoes as the dry material content is critical for the processors. Traditional varieties designed for fresh sales have a dry material content of between 3.5 and 4.2. A dual purpose variety trialed by KCBS named Alparac has a dry material of 4.6 and an increase in yield per hectare of at least 37%. This variety has been recommended to the growers for the first one to two years of working with contract growing of tomatoes as it will benefit the processor due to the increased dry material content but will also be able to be sold on the fresh market. The ultimate goal, once the growers have complete confidence in the contract growing systems and in the processing companies, will be for the growers to grow 60% of their crop using a processing specific variety and 40% of their crop using a fresh specific variety. The benefits of using a crop specific variety are increased yields, more than doubling the yields of fresh specific varieties, with a significant increase in dry material. Processing specific tomato varieties can have as high as a 6.2 dry material content based on trial planting conducted by KCBS. The processing companies have stated that they would be willing to increase the price per kilo for varieties based on increased dry material content.

During the course of the discussion the growers asked the bank who would help them if there was some sort of disaster and they were not able to repay their loans. The BMF replied that the collateral is used if the grower can't pay their loan. I spoke to the growers and explained that all parties involved are taking a risk and if they are looking for a risk free system in agriculture then they need to stop farming.

Anadrini Growers Association

The Anadrini growers association, where the meeting was held, is involved in the process of contract production because it is their growers who will be involved in this activity. I presented to the Anadrini association that they would have a very specific and large role in coordinating the logistics between their growers and the processor and between their growers and the bank. Anadrini should be used as a central collection point for the product coming from their members. At the central collection point volumes delivered per grower must be calculated; quality control inspections per grower must also be conducted and should be the responsibility of Anadrini. Anadrini should be the organization conducting the negotiations with the processing company on price, payment system, volumes, delivery dates and quality standards. Anadrini will also be responsible for receiving the payment from the processing company and then forwarding on payments to the individual growers. Anadrini should also represent the growers with the banks / lending institutions by acting as the liaison between the two parties and to coordinate the re-payment of the growers loans from proceeds of sales of the growers produce.

Based on my observations of the Anadrini staff I believe Anadrini will need significant support from the KCBS project if they are to be able to conduct the responsibilities that a true growers association has when working with a contract production operation.

Progress Processing Company

Progress was very interested in creating a system of contract production with the growers of the Anadrini growers association. Progress has not worked with contract production in the past though some of the owners of Progress did work with contract production fifteen plus years in the ago. The KCBS project has committed to help Progress develop a contract production contract with Progress agreeing that the growers, growers association and the bank / lending institution need to be involved with the contract to ensure all parties are comfortable with the terms. Progress wants to encourage the growers to grow processing specific tomato varieties to achieve higher dry material content to help with product quality and to help reduce costs. After discussions with Progress they are reticent to increase the price per kilo paid to the growers if they grow tomatoes with higher dry material content. The issue of giving a set price for the season for the growers under contract was also discussed and again Progress was reticent in regards to setting a contract price. I explained to the representatives that the concept of contract production is to give a set price to the growers so the growers will be willing to sign the contract; Progress will be guaranteed the volumes of product they need for the factory to run at peak efficiency, and so Progress can predict factory production cost prior to the start of the season. Continued discussions will be held with Progress to outline the benefits of setting a price for the growers and to giving a premium on process specific varieties.

The overall concept of contract production was outlined to all the parties who attended the meeting. For the lending institutions the key is growers have set price contracts with processing companies that significantly reduces the risk of providing micro credit loans for inputs that the growers desperately need. The lending institutions need to be convinced that set price contracts can and should be used as collateral for micro credit

loans to the growers. For the growers the key will be to have trust in the processing companies, delivery of the volumes and quality contracted for and to start growing processing specific varieties. For the grower associations the key will be for them to accept the responsibilities involved with working as a liaison between the growers and processing companies. For the processing companies, especially in the case of Progress, they must understand that without giving concessions to the growers, most importantly a set price, the growers will not have the confidence to sign production contracts.

February 9, 2006

Meeting at Pendrini Growers Association, Krusha E Madhe, Kosovo, to discuss their current activities in contract production and determine their willingness to participate in this activity if it does not currently exist.

Attendees:

Three representatives from Pendrini Growers Association

- Mr. Isa Dina, Manager
- Mr. Fadil Reshiti, President & Agriculture Expert
- Mr. Agim Veseli, Board Member

Three KCBS representatives were present

- Matt Tokar, Senior Cluster Advisor
- Muhamed Disha, Fruit and Vegetable Specialist
- Peter L. Wetzel, Production Contract Specialist

Members: 80+

Fee: 5.00 Euro per year

Crops: Tomatoes, peppers, cucumbers. 90% of growers in association growing vegetable crops

Yields: Based on trial plots from last year:

- Tomatoes - 120 T / Ha
- Peppers - 50 T / Ha
- Cucumbers - 100 T / Ha

The three representatives of Perdrini growers association showed the best understanding of any growers association of the benefits of contract production and the detailed role that the association must take in assisting their grower members. The association representatives outlined what they consider would be the basic activities of the association in assisting their members:

1. Provide at least two agronomists to help grower members in production practices
2. At least three people working on administrative issues including
 - a. Keeping track of weights of volumes delivered by growing members
 - b. Coordinating with processing companies for contract issues
 - c. Receiving payment from the processing company and distributing the final account sales to the grower members.

The Perdrini association will be put into contact with processing companies in Albania and Macedonia that specialize in processing of peppers. Perdrini has verbally committed to supply a minimum of 40 hectares of pepper production for a processing company willing to give a set price contract. During discussions with Perdrini reference was made to the desire of processing companies to gain access to contracted production of broccoli, cauliflower and green peas. Perdrini explained that the grower members of the association have over 40 years of vegetable production experience and would be willing to diversify their production base in the future. This is very important to the region as peppers have been the predominant crop being grown. By diversifying the crop base this will help decrease the amount of pathogens that build up in the soil with repeated growing of the same crop. Crop diversification will also make the growers association more attractive to a wider range of processing companies that can help reduce the risk of production agriculture.

There is a total of 650 hectares of irrigated land in the region of the Perdrini growers association. "Large" growers, growers with more than 5 hectares of land under production, make up 50% of the growers association. Most of the production is in peppers. There are two areas with land available for renting. One, located in Rugova, is close to the association with land rental rates at 1,000 euros per hectare. This cost would prove to be prohibitive to contract production of vegetables. The other area, located in Rahovec, that is slightly farther away rents for 350 euro per hectare which is a cost that would allow for profitable growing of vegetable crops for contract production.

February 10, 2006

Meeting with Pestova processing company. The meeting was conducted to determine whether or not Pestova is currently working in contract production, which they are. Detailed discussions were held on the development of a new contract format, volumes and varieties needed and an action plan set to finalize new contract format and to introduce Pestova to additional lending institutions to coordinate access of input loans for growers currently supplying Pestova raw material.

Attendees:

Pestova Processing Company

- Mr. Bedri Kosumi, Owner

KCBS Project

- Reshat Ajvazaj, Fruit and Vegetable Specialist
- Peter L. Wetzel, Production Contract Specialist

The Pestova processing company works with potatoes for processing, semi processed exports and fresh exports. Pestova has a french fry line available at the processing factory that is not currently operating. Pestova grows approximately 100 hectares of their own raw material and sources another 100 hectares of raw material through contract production with potato growers in the region they are located.

A copy of the contract that Pestova has been using with its growers can be found in Annex I. In Annex II is a copy of the suggested revised contract prepared for Pestova with quality standards and a delivery and volume schedule that has been recommended to Pestova to better manage the product being purchased. The original Pestova contract is very advantageous to the growers as Pestova is supplying many inputs and is not setting a price but working on market price. Processors working on market price have a very difficult time being profitable and it is not recommended. The reason Pestova can do this is that any increase in the open market price above the break-even point can be offset by his own production which makes up 50% of his total volumes.

Pestova has made agreements with Raiffeisen bank for Raiffeisen bank to supply credit to growers which have a signed contract to supply Pestova. Raiffeisen bank is working with a 14% interest rate and a six months grace period in payment. Raiffeisen bank also has an agreement with Pestova that if a grower has used tractors as collateral for a loan and the grower defaults on the loan then Pestova will purchase the tractor from Raiffeisen bank.

Pestova has set a good system with its growers but it is non-sustainable. Fixed prices are the most basic point in a contract production contract and is the only way a processing company can ensure profitability. The new contract that has been developed for Pestova still works with an open market pricing system but adds quality standards, penalties for poor quality and sets delivery and volume systems. This contract is intended to be a "bridge" into set price contracts as the growers will not accept too many changes at one time. More importantly, due to adverse weather conditions in Romania last potato season, the prices remained high and this will be an obstacle for growers agreeing to a lower contract price.

February 11, 2006

Developed "selling" tools to help convince both growers and processor the benefits of contract growing. Primarily charts that show the percentage of value increase to the processors if the growers use processing specific varieties. The goal is to convince the processors that if the growers use a processing specific variety that increase the processors net return by 50% due to increased dry material then some of that return must be given to the growers. Growers must have an incentive to use processing specific varieties.

Completed first revision of Pestova contract that will be reviewed and revised with Pestova.

February 13, 2006

Held a strategy meeting with KCBS fruit and vegetable team to finalize weekly meeting plan and set objectives for the week. Meetings set with Pestova processing company to go over new contract format and quality standards and to introduce Pestova to BMF micro finance company. Meetings set with Progress processing company to introduce a new contract system and to finalize contract production program between them and Anadrini Growers Association. Meetings set with Pendrini growers association to introduce them to new contract system, quality standards and to link Pendrini with BMF to start the process of cooperation between the two.

New contract format, based on a format provided by Alcred processing company in Albania, was finalized and will be used with meetings with Progress. Quality standards for potatoes, tomatoes and sweet peppers for processing were developed taking into consideration the Kosovo reality. Set quality standards have been lacking in any of the contract production contracts that have been reviewed in Kosovo. The Kosovo processing companies have had no quality standards in written form, which leads to problems with the growers when product is rejected or the price is lowered when the product is delivered to the processing factory due to quality problems. The contracts developed by Albanian processing companies make mention of quality standards but no standards are provided as part of the signed contract. The quality standards that were developed will be reviewed with the individual processing companies, growers associations and growers to make any minor adjustments necessary and so that all parties feel they are actively involved in the process of creating the contracts.

Quality standards for potatoes, tomatoes and sweet peppers can be found in Annex III. These standards were developed based on USDA (United States Department of Agriculture) standards for processing while taking the reality of Kosovo into consideration. These are recommended standards for the processing companies to use as a guide. Individual processing companies will have specific interests that may dictate a change in the quality standards. The most important issue is that the processing companies and the growers and

grower associations understand that quality standards must be a basic component to any contract production contract.

February 14, 2006

Meeting with Inter Cooperation to discuss how KCBS and Inter Cooperation can cooperate in the work being done in apples. Inter Cooperation is more focused on orchard development and management while KCBS has focused more on harvest, post harvest and marketing. The synergy is obvious. Discussions were conducted to set combined training for apple growers industry-wide with Inter Cooperation focusing on orchard management and KCBS focusing on harvest, post harvest and marketing. Discussions were held regarding the development of packing houses and cold stores and in introducing the concept of industry wide quality standards and the possibility of a "Made in Kosovo" brand.

Met with Progress processing company to present to them a contract format that can be used with the growers for contracting of tomatoes for processing. Overall Progress understands the need to start working with set price contracts. They also understand that the first year will be challenging but that the system must be put into place and started. They reviewed the contract presented to them line by line, made a few adjustments and agreed to meet with Anadrini growers association by the end of this week to approve a final copy with annexes that outline quality specifications.

Meeting with Anadrini to show them the contract discussed with Progress. Anadrini has agreed to work with Progress on the final copy of the contract and of the quality specifications. Anadrini has agreed in principle that at least twenty of their growers will sign contract production contracts this year to supply primarily tomatoes but also to investigate other crops such as peppers.

February 15, 2006

Met with Perdrini association to present draft copy of contract and quality specifications. Reviewed contract line by line and suggested quality standards. Perdrini has agreed in principle to work with contract production this year and will organize its growers accordingly. The contract reviewed with Perdrini was the contract that would be signed between the processing company and Perdrini. We discussed the contract that would be signed between the growers and Perdrini, adjusted parts of the processor / association contract to better fit the association / grower contract. Discussed the possibilities of diversifying the crops being grown by the association members with very strong interest from Perdrini to start working in different crops.

Developed grade standards for broccoli, cauliflower, okra and green beans to prepare for the possibility of new crops being requested by processing companies. Adjusted the contract that was reviewed by Perdrini to reflect changes requested by Perdrini and to outline specific services that Perdrini would be providing to the grower members, for a fee, during the growing, grading, packing and shipping of product to the processing company. Also agreed in principle to attempt to provide to Perdrini assistance in the form of technical advisors to work during the growing and harvest season.

February 16, 2006

Traveled to Macedonia to meet with Altra processing company that is not currently working with inputs from Kosovo to investigate the possibility of cooperation between KCBS growers and grower associations. Altra works with multiple products in processing, IQF freezing and fresh produce distribution. The primary products worked with for processing are red sweet peppers and sour cherries. The opportunities for cooperation during the coming season with Altra in freezing / processing are for supplying blue berries for IQF freezing and rose hips.

There is interest from Altra to obtain more information about the KCBS growers and grower associations and what crops with timing and volumes they are producing. During the coming season Altra might be interested in sourcing fresh product from Kosovo to help meet market demands.

Attendees:

- Tarjko Alcinov, CEO, Altra
- Pero Tanevski, Principle, Altra
- Muhamed Disha, KCBS, Fruit and Vegetable Specialist
- Peter L. Wetzel, KCBS, STTA Production Contract Specialist

February 17, 2006

Received updated contract agreed upon by both Progress and Anadrini. No major changes but some adjustments to the actual contract and the quality specifications that were agreed upon by both parties. Contract revised and sent via electronic transmission back to Progress and Anadrini.

Meeting with members of Perdrini growers association and BMF bank to make initial introductions, review copy of contract production contract and to explain the services that Perdrini will be providing to the grower members to help ensure a good season.

Meeting with Pestova to review revised version of contract and grade standards. Brining BMF micro finance institution to Pestova to introduce the two parties and to explore how BMF can work with Pestova and the growers supplying Pestova.

February 18, 2006

Meeting with Raiffeisen bank to discuss the systems the available loans, interest rates and collateral systems. Will discuss Raiffeisen's current relationship with Pestova processing company and investigate possibilities of Raifeisen working with other growers and grower associations. Raiffeisen, when working with Pestova processing company, will take contracts with Pestova as collateral. We will explore the possibility of the same arrangements with other processing companies, growers and Raiffeisen.

February 19, 2006

Traveled to Albania for meetings with Alcred

February 20, 2006

Meetings with Alcred processing company of Albania. Met with the owner Mr. Agim and the marketing manager Ms. Aida. The purpose of the trip was to establish types and volumes of product that Alcred might possibly need to import from growers and associations working with the KCBS project in Kosovo.

Alcred is very interested in working with the KCBS project. We discussed working with the growers' association Perdrini. The Perdrini association has good experience in vegetable productions and is willing to enter into contract farming contracts with Alcred. Alcred will be looking for primarily peppers for processing, but is also interested in broccoli and cauliflower. The volumes of peppers discussed are about 3,000 tons over the season with up to four trucks per day.

February 21, 2006

Traveled from Albania to Pristina

February 22, 2006

Travel back to Egypt. Returned to Kosovo for second phase of assignment on March 10.

March 11, 2006

Meeting with Matt Tokar, Senior Cluster Adviser, to be updated on past two weeks activities regarding the contract farming program. One of the most serious constraints KCBS is facing with contract growing is the growers' lack of understanding of the profitability of their land. Using the Perdrini growers association as an example, most of the growers own approximately one hectare of land. Based on the current yields, cost of production and farm gate price offered by the processing companies, a grower can achieve a net return of 3,000 euros. Perdrini has upwards of 70 members in their association, each with approximately one hectare. Using peppers as a base crop, the expected yield per hectare is 40 tons, cost of production is 2,658 euro per hectare, farm gate price is 0.17euro per kilo. With only one hectare a grower cannot expect to be financially stable with a net return of 3,000 euros for the year. By renting land the grower incurs additional short-term costs but will increase his total net revenue for the year. A signed contract with a reputable processing company should and can be used as collateral on a short term loan with either a bank, such as Raiffeisen, or with a micro finance organization such as BMF. This significantly reduces the risk to the grower and gives the grower access to short-term production loans so they can achieve an overall higher net return for the year.

Training will be conducted with the growers to help them understand better the benefits of increasing their area through short terms loans and working with a reputable processing company under contract. The goal of any farmer should be to have a sixty – forty split between contract growing and green market sales. Contract growing allows the farmer to calculate the absolute minimum they will earn in a season, if there are no unforeseen disasters, based on 60% of their crop sold under contract. The balance, 40% of their crop, they can risk on the open market. The challenge is to make the growers understand that contract growing is their hedge against a continually fluctuating green market. Green markets will always fluctuate from year to year, month to month and even sometimes week to week. The growers must understand that they might be making excellent returns this year but not to block out the processors. Next year the green market might collapse and their only safety net will be their continued good relationship with the processing companies.

March 13, 2006

Meeting with Pestova owner to discuss the current situation for contracts. To date 20 contracts have been signed between Pestova, local potato growers and Raiffeisen bank. Raiffeisen bank is using contracts between growers and Pestova as collateral on small loans. The interest rate Raiffeisen is charging is 12% annually. Based on a 2,000 euro per hectare production cost for potatoes and a six months loan term the actual cost to the growers is 120 euros with no collateral. Pestova has transitioned their contract format to one that was supplied to them by KCBS. The new contract format allows more transparency for all parties specifically relating to quality specifications. It is expected that on Thursday, March 16 at least ten more growers will sign contracts with Pestova. This will bring that total contracts signed up to 30 only with Pestova processing company. The biggest success for this activity is that the growers are starting to understand the benefits of contract growing and are using the banks to leverage their money to increase their net returns for the season while reducing their risk exposure.

March 14, 2006

Traveled to Perdrini to catch up on the contract growing activities between themselves and Alcred. The focus of the meetings was to convince Perdrini that a “realistic” price must be submitted to the processing company Alcred in Albania if there is any hope of an arrangement being made. Charts were developed that outlined the benefits of working both for the green market and for processing. The basic idea is to have the growers use available credit facilities and rental land to expand their production so they can work in both markets. Ideally the growers will work 50% of their land for green market and 50% for processing. The charts show that by taking a small risk in renting land and taking a small production loan they can significantly minimize their overall risk by working in both markets. The end result was the leaders of the Perdrini association are convinced and they submitted a new price to Alcred that has been verbally accepted. The reality is that only five to ten growers will work with this system for the coming season. As a starting point this is excellent.

The Perdrini association leaders are the most progressive group of growers I have worked with yet in Kosovo. Based on the final agreement – see Annex IV - with the processing company they will be the only association to be supplying product to a processing company outside of Kosovo. They are also the only group of growers who understand that they must expand their total area produced by either renting or purchasing new land. The Perdrini association has had very little direct financial assistance from donor agencies. This has created an atmosphere of entrepreneurship within the group.

The association leaders understand that they must provide real services to their members if they expect to bill for these services. KCBS has planned on a program to provide two recent agriculture graduates to assist Perdrini during the upcoming harvest season. These two assistants will assist in monitoring activities in the field and with the administrative issues of handling multiple growers product being consolidated at a common packing facility for shipment to the processing company. The goal will be to create the basic traceability systems necessary to track how much product and from whom is shipped to the processors. Basic quality control systems and detailed record keeping are expected to be implemented. The association will deal directly with the processing company for all issues including transfer of funds. The association will then be responsible for remitting funds to the growers after a final account of sales deducting services provided.

Processing companies, especially companies not located in Kosovo, are either not capable of dealing with individual growers or don't want to. The role of the association is to act as the liaison between the two groups and to provide services to their association members for a fee.

By the end of the upcoming season the results expected are to have two young agriculture graduates with hands on experience in the field and packing shed and a basic set of systems to ensure the smooth handling of product that will ensure quality standards are being met for the processors and that the growers are provided with transparent records of all activities. In the future as the quality control system becomes more proficient the growers will start to benefit from the classification of their product. Currently growers essentially pack everything into one quality. By improving the classification system the growers will increase their net returns by maximizing the sale of Class I product to the green market and Class II product to the processing companies. The facility can then be used in subsequent seasons as a model operation in training other associations.

The significance of the cooperation with Raiffeisen bank must be fully understood. Be establishing a system where Raiffeisen bank will give small production loans to growers without collateral based on a contract with an established processing company is a very significant advance in the contract growing system. This is one of the prime advantages for the growers to enter into such a relationship and can be used in the future to better establish the set price constraint currently being faced. As the growers gain access to better credit facilities they will increase their production area, which will also encourage them to enter into

contract growing relationships at a set price with a higher percentage of their total production.

International quality standards were introduced to all of the processing companies during this assignment. In the past some of the processing companies had basic quality standards but were not internationally recognized. By introducing international standards the processors better understand what is needed in the export market and the growers better understand what needs to be delivered to the processing companies. This issue is critical as better quality control systems must be implemented to minimize the volumes of “Class I” product being sent to processing. The concept is simple and widely recognized: Class I product is for the fresh market and Class II or Class III product is intended for processing. This is how the growers can maximize their returns while ensuring a good reputation in the fresh and processing markets. Annex III includes internationally recognized quality standards for some of the crops either currently or will be worked with. These standards are based on the USDA grade standards for processed products.

March 15, 2006

Meeting with Progress in Prizren. The end result was to get an agreement from Progress processing company to sign contracts with growers on March 17. The expectations are to have between seven and ten growers come to the Progress facility to sign contracts. This will be the first phase of contract signings with growers who have a better understanding of the benefits of contract growing. Progress expects this signing to act as a catalyst to encourage other growers in the community to also enter into contract growing arrangements.

March 16, 2006

Meeting at Pestova processing company for signing of contracts with growers. A total of nine contracts were signed with growers who will be supplying potatoes for Pestova. The contract included the volumes to be supplied by each grower and the quality specifications that must be met. The quality specifications include a deduction in the price paid for product not meeting the specifications. The price for the product paid is based on an “open” market price that will be agreed upon by the grower and Pestova at the time of delivery. Quality inspections will be done at the time of delivery by Pestova with the grower in attendance – see Annex VI. Pestova uses both quality control inspections and laboratory tests to ensure that the specifications are met.

March 17, 2006

Meeting at Progress for contract signing. A further 15 contracts were signed with growers who will be supplying potatoes for Progress. Conditions were as for the first nine contracts.

March 18, 2006

Final meeting with Matt Tokar regarding the outcome of the assignment.

TASK FINDINGS AND RECOMMENDATIONS

These have been incorporated in the foregoing Record of Daily Activities.

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE ACTIVITY

Conclusions

The success of the contract production component of the KCBS project is much higher than might be first assumed. Taking an industry into a 180 degree change in their accepted operating procedures is a daunting task at best but made even more difficult working in the agriculture field. The success of KCBS in introducing updated contracts that have been accepted by both the growers and the processing companies is significant. Growers signing these contracts that specify volumes and internationally recognized quality specifications has not occurred in the past fifteen years, if ever, in Kosovo. Understanding that you can lead a horse to water but you can't make it drink sums up the situation with "set" prices. The processors understand that they must have set prices if they are to be profitable in the future but, in the case of the Kosovo processors, until now they have not been willing to work with that system. The growers understand that set prices will be the system of the future but are not ready to enter into this type of arrangement yet. If both parties involved are not willing to accept a system, they cannot be forced to use it. But, based the opportunities for increase production areas from small production loans that are predicated on contracts with processing companies, the growers will be encouraged during the next season to enter into set price contracts and the system will be complete.

The most important issue now is to support the growers to supply the product at the volumes and quality that they have contracted for. This can be done by working with the growers at the field level and with the associations at the administrative level. The associations have a vital role to play in collecting the product, ensuring the quality specifications are being met and that shipments are coordinated to reduce as much as possible transportation cost.

Recommendations

KCBS needs to continue encouraging the banks to work with the small growers in providing short-term production loans so the growers can increase their production area. This, combined with the work already done by KCBS in variety trials, will be a key factor in the growers producing varieties that are either fresh specific or process specific. Once the growers have the financial capacity to increase their production they will have a higher incentive to enter into set price contracts with the processing companies.

KCBS should discuss with processing companies the possibility of not signing future contracts without a "set" price. The contracts are the key to the growers obtaining loans from banks, with a set price a prerequisite to a contract signature. This will force the growers to accept this system and expand their production area. Their alternative is to work only for the fresh market with a smaller production area and all of the risks that come with the fresh market.

ANNEXES

- Annex 1: Previous Pestova Contract
- Annex II: Adjusted Contract used by Pestova following KCBS intervention
- Annex III: Grades and Standards
- Annex IV: Final Contract used by Perdrini
- Annex V: Final Variety and Return Analysis
- Annex VI: Processing Quality Control Inspection

ANNEX I – CURRENT PESTOVA CONTRACT

Translated copy of contract production contract used by Pestova processing with their growers supplying potato raw materials for processing, semi processed product for export and fresh exports.

Contract Between Pairs

1. "Pestova" Company and farmer: _____
From _____ ID Card Number _____
2. The above mentioned pairs agreed to plant potatoes in cooperation.
3. "Petsova" provides inputs (seeds, fertilizers, chemicals, packaging, implements),
whereas the other pair is obliged to give potatoes for food as an exchange value.
4. On arriving "Pestova: is obliged to pay for the potatoes at the current market price.
5. Farmer _____ is obliged to evaluate potato quality by quality
control methodology on arriving at the storage as well as in the field.
6. If either of the pairs breaks compliance of this contract then the subject goes to the
courts in a period of 15 days.

Date: _____

Date: _____

"Pestova"

Farmer

ANNEX II - ADJUSTED CONTRACT USED BY PESTOVA FOLLOWING KCBS INTERVENTION

Contract

Made and entered on _____ 2006 between

(Insert name of processing company here), hereinafter referred as "COMPANY", with
address (insert address here)

And

_____ hereinafter referred as "SUPPLIER" with address

Represented by: _____

Article I

"SUPPLIER" supplies the "COMPANY" with agriculture products for industrial processing according to label and prices defined in the annex attached to this contract.

Article II

Product quantity will be delivered according to request of "COMPANY" and period of delivery that will be presented in the annex added to this contract.

Article III

Prices of supplied goods will be presented in the annex added to this contract.

Article IV

Payments methods are:

Bank draft, standing order, or transfer to the SUPPLIERS bank account.

Article V

Regarding complaints of "COMPANY" regarding quantity or quality, to define the quality we will refer to set standards of supplied goods in case "SUPPLIER" does not accept complaints regarding quality.

Article VI

This contract becomes effective on the date it is signed and is valid through the agriculture period 2006.

Article VII

Prices set in the contract annex may change only due to the effect of product quality.

Article VIII

Contract termination without paying penalties can be done:

- a) With consent of both "COMPANY" and "SUPPLIER"
- b) Because of major forces (war, bankruptcy or political – social factors that are not in control of any party, approval of unfavorable laws from respective countries).

Article IX

When on party wants to terminate the contract, they must notify the other party at least 60 days previously and compensate caused economic damages. The economic damage is calculated by joint expertise of the two parties.

Article X

In case there is no agreement, the court of _____
_____ will be competent to handle this dispute.

Article XI

This contract was made in four copies, two copies for each party, each of them with the same legal value.

_____ Processing Co.

"SUPPLIER"

Contract Annex

Made and entered on _____ 2006

“_____ Food Processing Co” hereinafter referred to as “COMPANY” with address _____

Represented by _____

And

_____ hereinafter referred to as “SUPPLIER” with address _____, represented by _____.

| Product Description | Unit | Price / EUR Unit | Quantity | Value in EUR | Delivery Date |
|---------------------|------|------------------|----------|--------------|---------------|
| | Kg | | | | |
| | Kg | | | | |
| | Kg | | | | |
| | Kg | | | | |
| | Kg | | | | |
| | Kg | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Prices will be CIF factory if parties agree to the fact that SUPPLIER should deal with transport.

Parties must agree on product packaging

Quality standards are attached in “grade standards annex”.

ANNEX III – GRADES AND STANDARDS

Potato Grade Specifications

Potatoes must meet the following grade standards to make them acceptable for use by the COMPANY

Potatoes shall show similar characteristics of the stated variety

No seriously misshapen potatoes

Potatoes must be free from:

Freezing

Blackheart

Soft rot

Wet breakdown

Other serious damages by any other cause

Mechanical damage - Less than 5%

Size - No smaller than 3.2 cm diameter

Sizes

Small - 3.2 cm to 5.7 cm diameter

Medium - 5.7 cm to 8.2 cm diameter

Large - 8.2 cm to 10.8 cm diameter

No more than _____% of small fruit is allowed. If more than _____% of small fruit is found a deduction of _____% for every percent of undersized fruit found will be deducted from the price.

If the potatoes are found to not meet the minimum grade specifications the SUPPLIER will be informed immediately and the price reduction stated.

Date_____

Date_____

COMPANY

SUPPLIER

Tomato Grade Specifications

Tomatoes must be:

Fairly firm

(the tomato is not water soaked so that it is too soft, shriveled or puffy that it will lose 20% of its weight during the peeling or washing process)

Fairly well colored

(at least 2/3 of the flesh of the tomato has good red color)

Free from:

- Any attached worm
- Worm injury
- Freeze injury
- Stems over 8 cm
- Mechanical damage (when causing more than 20% loss of the weight of the tomato)
- Mold or decay
- Any other defect or combination of defects, the removal of which in the preparation for processing causes a loss of more than 20%, by weight, of the tomato
- Excessive foreign material (loose stems, vines, dirt, adhering dirt, stones, trash, etc...

Date_____

Date_____

COMPANY

SUPPLIER

Sweet Peppers

Peppers shall consist of one variety or similar varietal characteristics which are fairly well colored (at least $\frac{3}{4}$ of the surface of the pepper has a characteristic medium or dark red color or color characteristic of the variety)

Pepper shall be free from serious damage by any cause (injury or defect which seriously affects the processing or edible quality of the pepper, or which cannot be removed in the ordinary process of trimming without a loss of more than 20%, by weight, of the pepper in excess of that which would occur if the pepper were perfect).

Date _____

Date _____

COMPANY

SUPPLIER

ANNEX IV - FINAL CONTRACT USED BY PERDRINI

Contract

Made and entered on _____ 2006 between

(Insert name of processing company here), hereinafter referred as "COMPANY", with address (insert address here)

And

_____ hereinafter referred as "SUPPLIER" with address

Represented by: _____

Article I

"SUPPLIER" supplies the "COMPANY" with agriculture products for industrial processing according to label and prices defined in the annex attached to this contract.

Article II

Product quantity will be delivered according to request of "COMPANY" and period of delivery that will be presented in the annex added to this contract.

Article III

Prices of supplied goods will be presented in the annex added to this contract.

Article IV

"COMPANY" will provide to "SUPPLIER" the following services and / or inputs:

Article V

"SUPPLIER" will pay "COMPANY" for the services and / or inputs stipulated in Article IV at the rate of _____ Euro cent per kilo of product delivered to "COMPANY". Said payment will be deducted from the final account of sales owed to "SUPPLIER" by "COMPANY"

Article VI

Payments methods are:
Bank draft, standing order, or transfer to the SUPPLIERS bank account.

Article VII

Regarding complaints of "COMPANY" regarding quantity or quality, to define the quality we will refer to set standards of supplied goods in case "SUPPLIER" does not accept complaints regarding quality.

Article VIII

This contract becomes effective on the date it is signed and is valid through the agriculture period 2006.

Article IX

Prices set in the contract annex may change only due to the effect of product quality.
Quality inspections will be completed upon delivery to the factory

Article X

Contract termination without paying penalties can be done:

- c) With consent of both "COMPANY" and "SUPPLIER"
- d) Because of major forces (war, **natural disasters**, bankruptcy or political – social factors that are not in control of any party, approval of unfavorable laws from respective countries).

Article XI

When on party wants to terminate the contract, they must notify the other party at least 60 days previously and compensate caused economic damages. The economic damage is calculated by joint expertise of the two parties.

Article XII

In case there is no agreement, the court of _____
_____ will be competent to handle this dispute.

Article XIII

This contract was made in four copies, two copies for each party, each of them with the same legal value.

_____"COMPANY"

_____"SUPPLIER"

Contract Annex

Made and entered on _____ 2006

“_____ Food Processing Co” hereinafter referred to as “COMPANY” with address _____

Represented by _____

And

_____ hereinafter referred to as “SUPPLIER” with address _____, represented by _____.

| Product Description | Unit | Price / EUR Unit | Quantity | Value in EUR | Delivery Date |
|---------------------|------|------------------|----------|--------------|---------------|
| | Kg | | | | |
| | Kg | | | | |
| | Kg | | | | |
| | Kg | | | | |
| | Kg | | | | |
| | Kg | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Prices will be based on delivered to the factory if parties agree to the fact that SUPPLIER should deal with transport.

Parties must agree on product packaging which will be _____

Quality standards are attached in “grade standards annex”.

Sweet Peppers

Peppers shall consist of one variety or similar varietal characteristics which are fairly well colored (at least $\frac{3}{4}$ of the surface of the pepper has a characteristic medium or dark red color or color characteristic of the variety)

Pepper shall be free from serious damage by any cause (injury or defect which seriously affects the processing or edible quality of the pepper, or which cannot be removed in the ordinary process of trimming without a loss of more than 20%, by weight, of the pepper in excess of that which would occur if the pepper were perfect).

Date _____

Date _____

COMPANY

SUPPLIER